

VZCZCXRO8723
RR RUEHAST RUEHBI RUEHCI RUEHDBU RUEHLH RUEHNEH RUEHPW
DE RUEHNE #0663/01 0931043
ZNR UUUUU ZZH
R 031043Z APR 09
FM AMEMBASSY NEW DELHI
TO RUEHC/SECSTATE WASHDC 6026
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RUCPDOG/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RHMFIUU/FAA NATIONAL HQ WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHDC

UNCLAS SECTION 01 OF 04 NEW DELHI 000663

SENSITIVE
SIPDIS

STATE FOR SCA/INS AND EEB
USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENTFELD/AADLER/CHINCKLEY
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER
EEB/CIP DAS GROSS, FSAEED, MSELINGER

E.O. 12958: N/A
TAGS: [ECON](#) [EAGR](#) [EAIR](#) [ECPS](#) [EFIN](#) [EINV](#) [EMIN](#) [ENRG](#) [EPET](#) [ETRD](#)
BEXP, KBIO, KIPR, KWMN, IN

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
MARCH 30 TO APRIL 3, 2009

11. (U) Below is a compilation of economic highlights from Embassy
New Delhi for the week of March 30-April 3, 2009, including the
following:

- Update on India's External Sector
- Indian Carriers Cancel Aircraft Orders
- Boeing Opens Research and Technology Center
- Bihar Govt Official Comments on Wal-Mart Bharti
- KPMG Report Notes Impact of Slowdown on Retail
- India's Military Aircraft Producer Gets New Chairman

Update on India's External Account

12. (U) India's balance of payments (BOP) position deteriorated sharply in the first three quarters of FY 2008-09 (April-December). The current account deficit (CAD) widened to \$36.5 billion, as against \$15.5 billion in the corresponding period a year ago. For the first time in over 10 years, India's capital account balance turned negative in the third quarter showing net capital outflows of \$3.2 billion mainly due to outflows of portfolio capital, banking capital, and short term trade credit. On a cumulative basis, capital account inflows during April-December 2008 slowed to \$15.3 billion, down from \$82 billion during the same period last year. Analysts estimate an overall BOP deficit of \$24.6 billion (3.7 percent of GDP) for the full FY 2008-09, which ended this week (on March 31), and expect it to narrow to \$23 billion (1.9 percent of GDP) in FY 2009-10.

13. (U) India's trade deficit narrowed in February 2009 to less than \$5 billion as the fall in imports at -23 percent was more than that of exports at -21.7 percent. However, the overall merchandise trade deficit during April-February 2008-09 rose to \$115 billion versus \$82 billion in April-February 2007 on account of higher growth in imports coupled with the slowdown in exports. Continued lower oil prices as well as a decrease in non-oil imports are likely to narrow the trade deficit in FY 2009-10.

14. (U) In the current account, net invisibles (software, travel and

tourism income and remittances) ended in a surplus of \$68.9 billion during April-December 2009 versus \$53.8 billion in the same period of previous year. Software exports rose by 26 percent to touch \$35 billion versus \$28 billion in the same period of last year. Similarly, remittances had inflows of \$37 billion during April-December 2008 versus \$29 billion for last year. However, some remittance flows may be temporarily bolstered by repatriation of accumulated wealth by migrant workers who have lost their jobs, implying a future decline. From a BOP accounting standpoint, a positive remittance flow offsets negative portfolio and bank capital flow.

15. (U) In the capital account, in FY 2008-09, foreign institutional investors pulled out \$9.3 billion from the Indian stock market. Notwithstanding the global financial crisis, foreign direct investment (FDI) inflows are still growing. India recorded 65 percent growth in FDI inflows, receiving \$23.9 billion between April and December 2008 versus \$14.5 billion for the year-over-year period. (Note: During FY 2007-08, India's FDI was at a record \$32.4 billion. End note.) The services sector witnessed the highest FDI inflow, followed by computer software and hardware, telecommunications, housing and construction activities, and the automobile sector. FDI inflows may be backward-looking, reflecting commitments made before the global crisis hit in September. However, one forward-looking measure is the growing number of investment approvals by the Finance Ministry's Foreign Investment Promotion Board, which approved 98 cases for the months of January and February 2009. The total investment from these approvals aggregates to \$752 million (most FDI does not require approval).

16. (U) During April-December 2008, foreign exchange reserves

NEW DELHI 00000663 002 OF 004

declined by \$54 billion to \$254 billion. Financing of the CAD and portfolio flows accounted for 38 percent of the fall, with the balance due to revaluation of reserves. On March 27, 2009 total outstanding foreign exchange reserves stood at \$252.3 billion (about 2.8 times short-term external debt of \$89 billion).

17. (U) The Ministry of Finance's data showed that the country's outstanding external debt rose marginally to \$230.8 billion at December 31, 2008, compared with \$224.8 billion in March 2008. Long-term debt on a residual basis accounted for \$140.9 billion or 61.1 of the total debt during the year, while the remainder, short-term debt, stood at \$89 billion or 38.9 percent. Rupee debt continued to remain constant at \$1.67 billion. However, the ratio of foreign exchange reserves to total external debt declined to 110.9 percent at end December 2008 from 137.9 percent at end March 2008.

Indian Carriers Cancel Aircraft Orders

18. (U) Indian carriers have pulled back on at least one-third of the aircraft orders which were booked with plane manufacturers and scheduled for delivery in 2009. Commercial plane makers Boeing, Airbus, and Empresa Brasileira de Aeronautica SA (Embraer) now expect to deliver some 57 aircraft to India this year, down from an earlier projection of 91 aircraft. As of July 2008, Indian carriers had placed orders for 68 Airbus planes, 22 Boeing aircraft, and one Embraer, all of which are scheduled for delivery this year. However, by January 2009, these numbers had been reduced to 32 Airbus and 20 Boeing planes. Jet Airways has deferred delivery of one Boeing 777 and one 737. The economic slowdown and downturn in the aviation sector has had a greater impact on orders of large capacity aircraft since orders for Embraer planes have now increased to five. That said, the Embraer order was placed by Paramount Airways, predominantly a regional airline that serves south India, which experienced a 73 percent increase in capacity between February 2008 and 2009. Other smaller airlines like IndiGo and SpiceJet have also increased capacity by 13 percent and 8 percent in the same period.

19. (U) According to The Mint newspaper, Boeing and Airbus are still optimistic and are hoping that a global economic recovery by the end of 2009 will put the aviation industry back onto a growth

trajectory. They also continue to stand by an India market forecast which estimates that the country's airlines would buy up to 1,100 planes over the next 20 years.

¶10. (U) Amid continued overcapacity and slowing economic growth, Indian carriers are struggling to fill up seats. Some analysts estimate total losses of about \$2 billion when the books are closed for the Indian fiscal year which ended on March 31, 2009. 2008 was also the first year that air passenger traffic in India fell after surging for the last six years. Last year, there were 40.77 million passengers as compared to 43.3 million passengers in 2007. The downturn in aviation was further compounded last year with record high jet fuel prices, which prompted airlines in the summer of 2008 to optimize routes and reduce the number of daily flights. Last year, India's domestic airline capacity shrank by 8% overall, including Kingfisher Airlines which reduced capacity by almost 17.1%, Jet Airways by 6.2%, and Air India by 5.3%. These three leading airlines in India are also witnessing a sharp rise in accumulated losses.

Boeing Opens Research and Technology Center

¶11. (U) Boeing announced on March 31 the opening of its Research and Technology-India center which will "help sustain the company's competitive technological edge while enhancing India's aerospace capabilities," according to the company. The center marks another milestone in Boeing's long-term relationship with India. This is Boeing's third advanced research center outside the US, with the

NEW DELHI 00000663 003 OF 004

other two located in Europe and Australia. The Boeing facility will carry out continued collaboration with Indian research and development (R&D) organizations, including government agencies and private sector R&D providers, universities, and other companies.

¶12. (U) Boeing's research in India will focus on aero structures, aerodynamics, and electronic networks and include a team of senior researchers, scientists, and engineers. This R&D center will coordinate the work of more than 1500 technologists, including 100 advanced technology researchers, from across India on projects that will help define the future of aerospace. President of Boeing India, Dinesh Keskar, said, "Boeing is defined by its technological edge. Working with India's technology leaders helps Boeing assimilate new ideas and innovative processes into our products and programs. This also is good for India because it helps grow the capabilities of the Indian R&D community to meet the emerging needs in country."

Bihar Govt Official Comments on Wal-Mart Bharti

¶13. (U) Local media report that a Bihar Government official has taken a strong stance against allowing Wal-Mart Bharti to open stores in the north-eastern state. Citing potential job loss resulting from organized retail, JDU National General Secretary, Arun Kumar Srivastava noted "We have not allowed Reliance, so where is the question of allowing Wal-Mart Bharti?" Srivastava, commenting just prior to election polling, also remarked on the UPA government's employment record, stating that only 1.6 million jobs were created under the UPA government.

KPMG Report Notes Impact of Slowdown on Retail

¶14. (U) A study released by KPMG suggests that the economic slowdown has affected organized retail penetration in India. Organized retail, which currently makes up only 5 percent of all retail in the country, was earlier expected to grow to a 16 percent market share by 2012. As investment into organized retails slows due to the liquidity crunch, the study estimates that organized retail will likely reach only 10.4 percent of the total retail sector.

¶15. (U) While the slowdown should only be a short-term phenomenon for retailers, lasting just 12-18 months, the confidence of Indian retailers will have been hit as expansion plans are both temporarily and permanently postponed. Nearly 70 percent of retailers surveyed by KPMG noted that their 'footfalls,' or number of customers

visiting outlets, have dropped. Retailers have been adversely affected by the lack of working capital, cost of finance, and the inability to expand stores or spend on advertising. The slowdown does present opportunities, however; as real estate prices drop, retailers may be able to more easily expand to tier II and tier III cities. [Comment: The economic slowdown has caused organized retailers, most of which had planned to rapidly expand through 2009, to slow expansion and reevaluate their business strategies. As the slowdown continues to affect the sector, there may be greater opportunities for foreign companies with capital and capabilities to partner with Indian retailers. End Comment.]

India's Military Aircraft Producer Gets New Chairman

¶16. (SBU) India's largest producer of military aircraft, Hindustan Aeronautics Limited (HAL), got a new boss on April 1, as former Managing Director Ashok Nayak took over from Ashok Baweja. Nayak's appointment is something of a departure from past practice for HAL -- former chairs tended to have come from departments producing Soviet/Russian-origin aircraft, while Nayak's experience has been more with Indian- and European-origin designs.

¶17. (SBU) Prior to taking over as HAL's chairman, Nayak was the Managing Director of HAL's Bangalore Complex since 2007 where he oversaw the mass production of two platforms for the Indian Air Force (IAF): the newly developed Dhruv light helicopter and the

NEW DELHI 00000663 004 OF 004

recently acquired Hawk trainer aircraft from BAE Systems of the UK. Before that, he was General Manager of HAL's Aircrafts Division, where he oversaw the upgrading of the IAF's Jaguar fleet. At HAL, he has also overseen the maintenance program for the Mirage 2000 aircraft and served as assistant general manager of HAL's Aerospace division, where he oversaw the development of composite materials now used in India's space program. As the overall Chief of HAL's Unmanned Air Vehicle (UAV) program, Nayak has considerable experience with USG export license regimes as well as with delays in processing visas for HAL employees traveling to the United States, both of which he has complained about to Consulate General Chennai officers.

¶18. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>.

WHITE